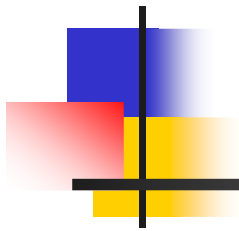


COLORADO NEIGHBORHOOD STABILIZATION PROGRAM



Implementation Training

Department of Local Affairs
Division of Housing



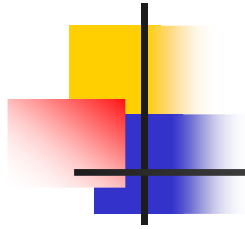
Welcome to the Training!

- Your host – Colorado Division of Housing
- Your Trainers – ICF International
 - Carole Norris
 - Charles Kreiman
- The Agenda
- Logistics and Ground Rules



Today's Training Objectives

- Overview of NSP as implementation begins
- Highlight NSP – CDBG distinctions and the implications for management and compliance
- Review typical activities and address potential issues & questions
 - Single Family Housing
 - Multifamily Housing
 - Land Banks



MODULE 1

NSP Overview - Program Objectives and Basic Requirements



NSP Origins and Purposes

- Neighborhood Stabilization Program (NSP) authorized by the Housing and Economic Recovery Act of 2008 (HERA) July 30, 2008
- Goals of the program
 - Stabilize neighborhoods
 - Target areas of greatest need
 - Arrest decline
 - Get foreclosed housing back into occupancy
- \$3.92 billion total appropriated for NSP1



NSP Guidance and References

- HUD NSP Notice October 6, 2008
- Amendments to NSP – ARRA February 7, 2009
- NSP Bridge Notice June 15, 2009
- Frequently Asked Questions
- Other HUD Guidance (see links)



NSP Process - National

- Funds distributed by formula to areas of greatest need – foreclosures; high risk - subprime loans
- Funds allocated to States and CDBG Entitlement jurisdictions with minimum NSP allocation
- Streamlined public participation



Application for NSP1 Funds

- Substantial Amendment to Consolidated Plan
- Describe plan to target resources, propose activities, and define key terms
- Due by 12/1/08



Colorado's Allocation of NSP Funds

Data analysis, consultation, and public comment results in plan to:

- Supplement funds for other direct NSP recipient jurisdictions
- Allocate funds to “First Tier” communities – areas of greatest need
- Fund “Second Tier” communities through reallocation of program income



NSP Eligible Properties

- **Foreclosed**: Mortgage/tax foreclosure complete, includes title transfer
- **Abandoned**: Mortgage/tax foreclosure proceedings initiated & no mortgage/tax payments for 90 days **and** vacant for 90 days
- **Residential Property**: Homes plus vacant residential land and multifamily properties
- **Vacant Property**: Unoccupied structures or vacant land that was once developed



Other Key NSP Terms

- **Blighted Structure**: “Objectively determinable signs of deterioration...” see also CO NSP Substantial Amendment
- **Subrecipient**: HUD Definition - 24 CFR 570.500(c), first sentence
 - Nonprofit/other entity competitively procured = contractor
 - Nonprofit/other entity carrying out acquisition and rehabilitation = developer



Colorado Terminology and Subrecipients

- All entities receiving direct award of Colorado NSP1 funds are “subrecipients” under HUD definition
- Colorado calls these entities “Grantees”
- Grantees may work with developers and contractors to carry out NSP activities
- Grantees also work with “subrecipients” that DOH calls “Sub-Grantees”



Subrecipients-Contractors-Developers: Implications

- Grantees-Sub-Grantees (Subrecipients) required to follow applicable grant management requirements and cost principles (OMB Circulars)
- Contractors and Developers – governed by contract or funding agreement terms
- Program Income applicability



Eligible Uses

- HERA defines five “uses” of NSP funds
- Generally, uses of NSP funds must be CDBG eligible
 - Some exceptions (Land Bank)
- HUD has cross referenced NSP uses to CDBG activities
- HUD permission needed if CDBG activity not on list



Eligible Uses - CDBG Activities

Eligible Use	CDBG Eligible Activities
A. Financing mechanisms for purchase & redevelopment of <u>foreclosed</u> upon <u>homes & residential properties</u>	<ul style="list-style-type: none">■ Activity delivery cost for an eligible activity (designing & setting it up)■ The financing of an NSP eligible activity – such as soft second loans, loan loss reserve, equity sharing■ Other activities in Uses B-D



Eligible Uses - CDBG Activities cont

Eligible Use	CDBG Eligible Activities
B. Purchase and rehabilitate <u>homes and residential properties</u> that have been <u>abandoned or foreclosed</u> upon, in order to sell, rent, or redevelop such homes and properties	<ul style="list-style-type: none">■ Acquisition■ Disposition■ Relocation■ Direct homeownership assistance■ Eligible rehabilitation and preservation activities for homes and other residential properties■ Housing counseling - for those seeking to take part in the activity



Eligible Uses - CDBG Activities cont

Eligible Use	CDBG Eligible Activities
C. Land banks for <i>homes</i> and <i>residential properties</i> that have been <i>foreclosed</i> upon	<ul style="list-style-type: none">■ Acquisition■ Disposition (includes maintenance)

Eligible Use	CDBG Eligible Activity
D. Demolish <i>blighted</i> structures	<ul style="list-style-type: none">■ Clearance, for blighted structures only



Eligible Uses - CDBG Activities cont

Eligible Use	CDBG Eligible Activities
E. Redevelop <i><u>demolished</u> or <u>vacant</u></i> properties	<ul style="list-style-type: none">■ Acquisition■ Disposition■ Public facilities and improvements■ Housing counseling – for prospective participants in NSP■ Relocation■ New housing construction■ Direct homeownership assistance■ Rehabilitation (new, likely under Bridge Notice)



Eligible Property Type – Eligible Use

- Each property type has some restrictions on allowable types of NSP fund use
- Examples
 - Vacant residential land (never developed) – use NSP as a “Financing Mechanism” (A)
 - Previously developed but currently vacant – use NSP to “Redevelop” (E)
- Refer to matrix for further examples and details



NSP Beneficiaries

- Regular CDBG – Low- and Moderate Income – 80% AMI
 - Denver area 4 person - \$60,800
- NSP – Low- Moderate- and Middle-Income (LMMI) – 120% AMI
 - Denver area 4 person - \$91,200



NSP and National Objective – Housing

- Activities that provide housing must meet Low-Mod-Middle Income Housing (LMMH)
 - Households must be <120% AMI
- Housing a direct benefit activity - calculate & document income
- Homebuyers – determine income prior to provision of assistance
- Renters - Initial occupancy & unit turnover - during affordability period



NSP and National Objective - Area

- Area benefit (LMMA): defined area with $\geq 51\%$ of residents $\leq 120\%$ of median
 - Activity serves all residents of primarily residential area
 - Use for land banks if also do maintenance, demolition, redevelopment



Low Income Targeting

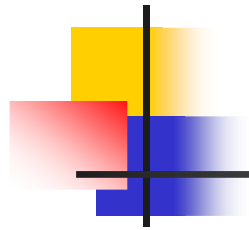
NSP requires low income set aside

- 25% of NSP funds used for activities that provide housing for households with incomes $\leq 50\%$ of area median income (Denver 4 person limit - \$38,000)
- Set aside funds are identified in funding awards
- Be careful about what counts toward set aside
 - Must meet LMMH national objective
 - Can only be **foreclosed/abandoned units** for permanent residential housing



Income Determination

- ALL direct beneficiary households must meet 120% AMI limit
- Use Part 5 definition of income – required by DOH NSP contract
- Use current, 2009 Income Limits – 120% AMI and 50% AMI – see handout
- Special focus on 50% AMI



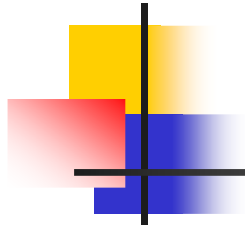
MODULE 2

Key Implementation Processes



Property Selection

- Properties must be within targeted areas
 - Documentation of target area location by census tract & block group
- Under Eligible Uses A-C, property must be ***foreclosed or abandoned***
 - Files will need to document property eligibility
 - Foreclosed property – evidence that title for the property had been transferred back to the lender
 - Abandoned – evidence of the initiation of foreclosure filing and 90 days with no payment & vacant
- HUD encourages consideration of FHA properties



Property Selection cont

- Feasible and cost reasonable to bring property up to property standards
- Important considerations:
 - Targeted buyer
 - Neighborhood market
 - Potential for timely sale within program timeline



Property Acquisition

- Appraisal
- Purchase discount – 1% Minimum
- Voluntary acquisition – Include required Notice with offer
- Occupied properties – decline?



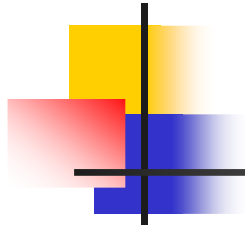
Environment

- Follow CDBG procedures for comparable NSP activities
- Single Family – Typically “categorically excluded” but subject to other laws and authorities (24 CFR 58.5(b))
- Multi-Family – Typically requires Environmental Assessment, Notices, and Release of Funds



Environment cont

- Limitation on commitment of NSP funds pending completion of site specific review or release of funds
- Same as CDBG – No prior commitment that would have adverse environmental impact or limit choice of reasonable alternatives



Lead-Based Paint

- Standard CDBG lead-based paint rules and procedures apply to NSP
 - Pre-1978 housing
 - Requirements tiered based on amount of rehab
- Ensure rehabilitation budget sufficient for addressing lead-based paint requirements
- Consider time and expense for units with extensive lead-based paint abatement needs



Rehabilitation

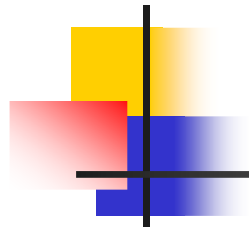
Differences from CDBG single-family owner occupied rehab

- Batch processing – 4 to 7 units at a time
- Agency procurement, not owner; follow governmental - nonprofit procurement rules (24 CFR Part 84/85)
- Potential for new contractors, larger scale
- Greater emphasis on Energy – Green Building
- Added consideration of marketability in standards, scope of work



Other NSP Considerations

- Counseling
 - At least 8 hours
 - HUD-approved counseling agency
 - Count previously completed counseling
 - Counseling associated with purchase – Activity B - NOT public service
 - Counseling provided under Redevelopment Activity E - Counted as **public service subject to cap**
- Ensure lenders comply with bank regulators guidance for non-traditional mortgages



MODULE 3

Program Management



Classifying and Documenting Costs

Project delivery costs:

- Costs for grantee/subrecipient directly related to delivering the assisted projects
- Example: Inspections, work write-ups, appraisals, homebuyer selection, environmental review, etc.
- Can pay delivery costs as part of eligible program cost
- Not an admin cost



Classifying and Documenting Costs cont

- Documenting staff costs
 - Signed Time & Activity report with supporting documentation required
 - Supporting document – log: e.g. “Inspection 3214 Grape St”
- Procurement records for all contracted services – appraisal, closing agent
- Administrative costs – 2% shared with Grantees



Combining NSP & Other Funds

- NSP waivers and special rules (e.g. 120% AMI) apply to activities 100% NSP
- Combining NSP with other funds – CDBG, HOME – makes requirements applicable
- Follow “most restrictive” applicable requirement



Fund Draws

- Use NSP Request for Reimbursement
- Lead time for closings – 30 days from offer to closing date
- Documentation requirements



PI GENERAL PRINCIPLES

- CDBG Entitlement Program Income Rule applies - §570.500(a)
- Use deadlines - repealed by ARRA
- Proportionality
 - Income generated by NSP
 - Income generated by other funds



PI GENERAL PRINCIPLES cont

Proportionality – Example

Total Cost of Activity	\$300,000
NSP funds	\$150,000 (50%)
Other funds	\$150,000
Revenue from Activity	\$200,000
NSP Program Income	\$100,000 (50%)



PI GENERAL PRINCIPLES cont

- Exclusion - \$25,000 – State Grantee and its Sub-Grantees
- Applicable Credits
- Applicability to Sub-Grantees



PI GENERAL PRINCIPLES cont

- PI to State for Reallocation
- PI Remittance
 - At sale – See Single Family Module
 - Annual – Rental property
 - Monthly – other receipts – amortized loans, recaptures, etc.



Monthly PI Spreadsheet

Grantee	Sub-Grantee	Month	Year
Grant #	Sub-Grant #		
Property Address & Identification	NSP Activity Type A-B-C-D-E	PI Due	PI Rec'd
		\$0.00	\$0.00
		\$0.00	\$0.00
		\$0.00	\$0.00
TOTAL		\$0.00	\$0.00

Remit to State of Colorado



CASH MANAGEMENT

- Spend Program Income before NSP grant funds
- Grantee draws funded first with available PI - Transparent to grantee
- State commitment of NSP PI for Tier II funding



Program Income Remittance Process

- Identify source on check
CO NSP Grant# _____
- Include applicable documentation
- Send to:
NSP Administrative Assistant
Colorado Division of Housing
1313 Sherman Street, Room 518
Denver, CO 80203



Oversight and Monitoring

- State Review of Grantees
 - All aspects of Project Performance Plan and contract terms – desk review & on-site
- Grantee Review of Activity and Sub-Grantee Activity
 - Income determination
 - Counseling requirement
 - Purchase discount
 - Long term affordability – Recapture or Rental Affordability



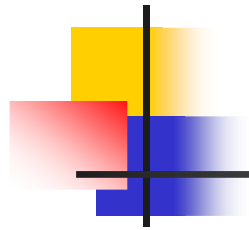
NSP Reporting

- Monthly reports - Financial Status Report & Project Performance Plan
- PI transmittal – promptly after transaction or monthly
- Disaster Recovery Grant Reporting (DRGR) System used for NSP reporting to HUD – DOH will handle entry



Deadlines

- Use Deadline – 9/10/2010
 - Use = Expend or Obligate
 - Obligate – “under contract” – purchase agreement, rehab contract
- Expenditure Deadline
 - Colorado deadline – 3/10/2013
 - ALL FUNDS must be spent by this date



MODULE 4

Single Family – Owner-Occupied Activities



Sales Price Limit

NSP sets maximum price – Example

Purchase Price	\$120,000
<u>Holding Cost</u>	<u>\$3,000</u>
Activity Delivery	\$5,000
Rehab	\$37,000
T Eligible Cost	\$165,000
Max Sales Price	\$162,000



Affordability Period - Owner

Affordability period based on NSP funds invested

Per Unit NSP \$	Min. Affordability Period
<\$15,000	5 years
\$15,000 - \$40,000	10 years
>\$40,000	15 years
Reconstruction/New Construction/New Unit Acquisition	20 years



Recapture

- Base all recapture on Net Proceeds of sale
- Clearly describe priority order for allocating net proceeds – grantee first, owner first, or shared
- Address potential of deficient net proceeds



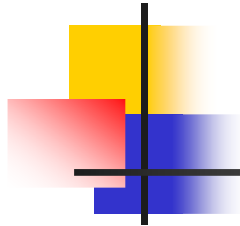
Resale

- Use Resale Restriction for Land Trust Activities
- Term of affordability
 - Meet NSP minimum
 - Longer term – Land Trust standard
- Ensure buyer has full information and understanding of Resale Restriction (price, buyer)



Sale of NSP Assisted Property

- Document Total Development Cost
- Document NSP proportion of TDC
- Provide advance notification of closing to CDOH
- Net Sales Proceeds - HUD 1 Line 603
- Closing agent transmits to CDOH



Sale Spreadsheet

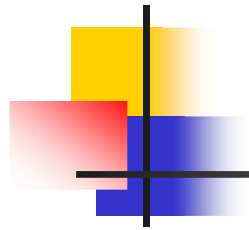
Grantee	Sub-Grantee
Grant #	Sub-Grant #
Property Address & Identification	NSP Activity Type A-B-C-D-E

Sec. 1. Acquisition-Development-Sales Costs

CO NSP Funds	\$1.00
Other - specify	\$1.00
Other - specify	\$1.00
Other - specify	\$1.00
Total Development Costs	\$4.00
CO NSP Portion TDC	0.25

Section 2.

Sales Proceeds Line 603 HUD 1	\$2.00
CO NSP Program Income	\$0.50



MODULE 5

Multi-Family – Renter Activities



Long Term Affordability

- Term of Affordability – 30 years
- Rent Limitations – Lesser of:
FMR or High HOME (30% of 65% AMI)
- Follow requirements for rent increases and notices to tenants
- Ensure property managers document income of all new tenants during affordability period



NSP Property Held for Rent

- Net Cash Flow from NSP assisted rental property is NSP Program Income
- Establish Operating Year as basis for Net Cash Flow
- $\text{NSP proportion of Total Development Cost} \times \text{Net Cash Flow} = \text{NSP PI}$
- Program Income due 45 days after end of Operating Year



NSP Property Held for Rent_{cont}

- Cash Flow – template provided
- Income – all sources
- Expenses
 - Reasonable fees
 - Operating and replacement reserves
 - Other reasonable expenses
- Debt Service – one or more
- Cash Flow X NSP Proportional share = NSP PI



NSP Property Held for Rent_{cont}

Rent	\$990	
Other Income	\$10	
Gross Income	<u>\$1,000</u>	
Expenses	\$800	
Net Income	<u>\$200</u>	
Debt Service 1	\$100	
Debt Service 2	\$50	
Cash Flow	<u>\$50</u>	← PI



Rental – Annual Summary Pt 1

Grantee	Sub-Grantee
Grant #	Sub-Grant #
Annual Operating Period _____ to _____ Property Address & Identification _____ NSP Activity Type A-B-C-D-E	
INCOME	
Rent Received	
Other Income – specify	
GROSS INCOME	0
EXPENSES	
Annual Expenses - Itemize below, including all reasonable fees and payments to operating and replacement reserves	
1	
2	
3	
4	
TOTAL EXPENSES	0
NET OPERATING INCOME	0



Rental – Annual Summary Pt 2

Debt Service 1	
Debt Service 2	
TOTAL DEBT SERVICE	0
CASH FLOW	0
Total Development Cost	100
NSP Funds for Development	10
NSP Proportion of TDC	10%

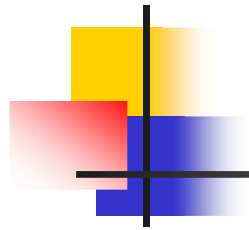
NSP PI Equals:

NSP Proportion of TDC X Cash Flow	0
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Rental of Units Marketed for Sale

- Record Rental Use Covenant prior to occupancy
- Provide “Move-in Notice” under URA procedures
- Sale prior to expiration of Use Covenant
[State policies to be developed]



MODULE 6

Land Bank



Land Bank Holding Costs

- ARRA amendment clarified that NSP can be used for Land Bank operating costs
- Activities described under CDBG Disposition (Sec. 570.201(b))
- Reasonable costs of temporary management
- Sales, marketing, seller paid closing costs



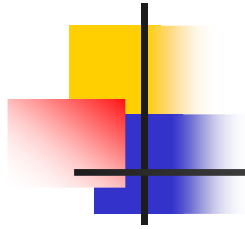
Land Bank and LMMA

- Can meet national objective by demonstrating benefit to LMMI Area
- Must be more than buy and hold
- Must include related activities to serve area – maintenance, demolition, redevelopment



Land Bank and LMMH

- Use housing National Objective when housing development expected within near term, 2-3 years?
- Buyer must understand that ALL housing units must be for households at 120% AMI or less
- Target housing to 50% AMI to the extent feasible



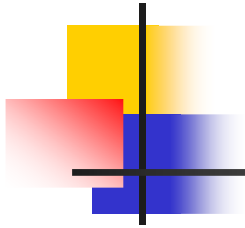
NSP Land Bank

- Revenue during holding period
- Evaluate revenue based on source paying for holding costs
- NSP for holding costs – revenue a credit
- Reuse of land bank property – Follow applicable NSP Program Income policy
 - Sale
 - Rent



Land Bank - Deadlines for Fund Use and Expenditure

- All NSP funding for acquisition, operation, marketing, and sales must be under contract by 9/10/2010
- Expenditure deadline: **3/10/2013**
- Consider need for other sources of funds





NSP Financing Mechanisms

- Repayment of NSP loans
- Other repayments – Recapture
- Transmit 10 days after any month when payment received
- Documentation – template provided



NSP Redevelopment

- Program Income determined by end result
- Follow applicable NSP Program Income policy:
 - Sale
 - Rental



NSP Demolition

- Demolition not expected to yield Program Income
- Salvage NOT Program Income
- Salvage value - credit against gross cost



Other Program Income Issues

- Lease - Purchase
 - Apply rental policies during lease
 - Apply sale policies at purchase
- Rental Property – NSP PI may come from both:
 - Financing mechanism
 - Cash flow